

**MINUTES
of the
FOURTH MEETING
of the
NEW MEXICO FINANCE AUTHORITY OVERSIGHT COMMITTEE**

**October 31-November 1, 2013
Clovis Civic Center
801 Schepps Blvd.
Clovis**

The fourth meeting of the New Mexico Finance Authority (NMFA) Oversight Committee was called to order by Representative Patricia A. Lundstrom, chair, on Thursday, October 31, 2013, at 9:05 a.m. at the Clovis Civic Center in Clovis.

Present

Rep. Patricia A. Lundstrom, Chair
Sen. Joseph Cervantes, Vice Chair (10/31)
Rep. Alonzo Baldonado (10/31)
Rep. Ernest H. Chavez
Sen. Lee S. Cotter
Rep. Candy Spence Ezzell
Rep. Roberto "Bobby" J. Gonzales
Sen. Ron Griggs
Rep. Jimmie C. Hall
Rep. Dona G. Irwin (10/31)
Sen. Michael Padilla
Rep. Jane E. Powdrell-Culbert
Rep. Debbie A. Rodella
Rep. James P. White

Advisory Members

Sen. Jacob R. Candelaria
Rep. Sharon Clahchischilliage
Rep. Anna M. Crook
Rep. Mary Helen Garcia (10/31)
Rep. Yvette Herrell
Sen. Stuart Ingle
Sen. Mary Kay Papen (10/31)
Sen. John Pinto
Rep. Edward C. Sandoval
Rep. Sheryl Williams Stapleton

Absent

Sen. Phil A. Griego
Sen. John C. Ryan
Rep. Henry Kiki Saavedra
Sen. William P. Soules
Rep. James R.J. Strickler

Sen. Sue Wilson Beffort
Rep. Brian F. Egolf, Jr.
Rep. Kelly K. Fajardo
Rep. Emily Kane
Rep. Timothy M. Keller
Rep. W. Ken Martinez
Sen. George K. Munoz
Sen. Bill B. O'Neill
Rep. William H. Payne
Sen. Nancy Rodriguez
Sen. Clemente Sanchez
Rep. Thomas C. Taylor
Rep. Monica Youngblood

Guest Legislator

Sen. Pat Woods (10/31)

(Attendance dates are noted for members not attending the entire meeting.)

Staff

Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)

Amy Chavez-Romero, Assistant Director for Drafting Services, LCS

Alexandria Tapia, Research Assistant, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts are in the meeting file and posted online.

Thursday, October 31

Representative Lundstrom welcomed all present and announced that Representative Crook would help to chair the meeting.

Welcome from Clovis

David Lansford, mayor, Town of Clovis, welcomed the committee to Clovis.

Board Report

Blake Curtis, NMFA board member, updated the committee on changes within the NMFA board. He informed the committee that Nann Winter, NMFA board chair, would soon be leaving the board. He added that Paul Gutierrez recently left the New Mexico Association of Counties and the NMFA board.

Mr. Curtis indicated that the NMFA board is continuing its search for a chief executive officer (CEO) to replace John Gasparich, the NMFA's acting CEO. He stated that the board has identified at least two prospects for a CEO, including Rob Perry, the chief administrative officer for the City of Albuquerque, and Robert Coalter, executive director of the Texas Public Finance Authority. Mr. Curtis commended Mr. Gasparich's work and thanked him for his service to the board. In response to a question from the chair, Mr. Curtis said that the NMFA board members are aiming to hire a new CEO by November 5 or 6.

Mr. Curtis provided an overview of the Public Project Revolving Fund (PPRF) bond issuances closing in November. The NMFA board approved PPRF bond issuances of approximately \$30.65 million, including: \$16.36 million for Series 2013 B; \$3.75 million for Series 2013 C-1; and \$10.55 million for Series 2013 C-2. Mr. Curtis highlighted that the Standard and Poor's rating for the Series 2013 C-1 bonds improved from AA to AA+.

In response to questions about the NMFA's vacant internal auditor position, Mr. Gasparich said that the board might seek an accounting firm to perform an internal audit. According to Mr. Gasparich, the internal audit function is not currently being fulfilled. He noted that the NMFA had a contract a year ago with an accounting firm to perform that function, but the contract was canceled when a decision was made to create a full-time internal auditor position at the NMFA. Mr. Gasparich indicated that he did not anticipate any adverse findings from external auditors due to the vacancy in that position. Some committee members expressed support for making the audit function independent from the NMFA.

Committee members asked questions about the process followed by the Office of the State Engineer (OSE) in procuring a contractor for development of a statewide water plan. Mr. Gasparich explained that the OSE applied for financing from the NMFA for \$400,000 to use for a statewide water development plan. He explained that the application went through the standard loan review process before the NMFA board approved it. Mr. Gasparich said he did not know whether a contract had been awarded with regard to the state water plan, but the NMFA board considered its funding process as a mechanism to permit the OSE to prospectively develop the plan over a three-year period. Some committee members questioned whether the OSE initially requested a sufficient legislative appropriation for the plan, due to its subsequent request to the NMFA board for additional funding. Mr. Gasparich indicated that the OSE proposed to use its legislative appropriation with financing from the NMFA to merge 16 regional water plans into a cohesive, statewide water plan.

Approval of Minutes

Upon a motion made and seconded, the minutes of the third meeting of the NMFA Oversight Committee were approved.

NMFA Dashboard Report

Mr. Gasparich provided the committee with a report of the process used by the NMFA to track and correct findings from all investigations, audits and reviews of the NMFA subsequent to the fraudulent audit. He indicated that the NMFA's management and staff reviewed a number of reports, including reports from the Office of the State Auditor and the Securities Division of the Regulation and Licensing Department. The NMFA's management and staff additionally reviewed a report from Hewitt EnnisKnupp, Inc., a forensic audit report from PricewaterhouseCoopers, LLC, and an external audit report from the REDW, LLC. The management and staff of the NMFA accumulated the findings identified in each report and organized the findings by focus area. The NMFA devised a matrix to organize the concerns identified by the reports and the NMFA's actions to address those concerns.

Mr. Gasparich updated the committee on the status of an external audit performed for the NMFA for fiscal year (FY) 2013. He explained that the entrance conference, single audit, internal control test work and substantive work are complete. However, the financial statement review for the audit is still in progress. The exit conference for the audit is scheduled for November 13, 2013. Mr. Gasparich said that the NMFA plans to submit the audit to the state

auditor before December 15, 2013.

Mr. Gasparich discussed a number of issues contained in a matrix of findings from the audit reports reviewed by the NMFA management and staff. First, he discussed some challenges with respect to the FY 2012 audit. He indicated that some deadlines pursuant to state rules and federal requirements were missed with respect to the FY 2012 audit. However, he indicated that the NMFA plans to meet all of the required deadlines with respect to the FY 2013 audit.

Mr. Gasparich mentioned that other findings from previous audits have been addressed and should not present any adverse findings for the FY 2013 audit. For example, the NMFA's lack of a chief financial officer (CFO) was identified as a finding in a previous audit, but the NMFA has since hired a CFO. A lack of compliance training was identified as another finding in a previous audit of the NMFA. Since that finding was made, the NMFA's general counsel has received a certificate in compliance and ethics, and the NMFA's accounting staff members have completed training in compliance.

Next, Mr. Gasparich addressed a number of staffing issues contained in the matrix. To address resource management concerns, the NMFA modified its hierarchy structure to require all staff to report directly to the controller or the CFO. The NMFA has additionally provided a number of training initiatives to its staff, including:

- training from the Office of the State Auditor;
- ethics training for the NMFA's accountants;
- government accounting, auditing and financial reporting training;
- courses on internal control;
- compliance workshops for the controller and loan operations; and
- training from the Government Finance Officers Association.

In response to a question regarding audit training for the NMFA board members, Mr. Gasparich indicated that the board members have received training from the Office of the State Auditor. He added that one of the board members is a certified public accountant, while the NMFA's audit committee chair is experienced in governmental accounting.

Mr. Gasparich discussed the challenges in improving the NMFA's loan servicing operations. He indicated that the NMFA has attempted to automate its loan servicing program, but it has encountered challenges with its software. To resolve the existing software issues, the NMFA is in the process of working with North Ridge Software, Inc., to modify its existing project plan and better define the scope of deliverables. A project manager has been assigned to lead this effort.

Accounting practices are another area addressed by the matrix presented by Mr. Gasparich. He indicated that a previous finding related to bank reconciliation timeliness has been resolved and that all bank reconciliations are now up to date. A finding with regard to

invoice documentation and credit card usage has been addressed by ceasing all credit card use within the NMFA, except for the purchase of supplies online.

The reports provided to the NMFA's staff additionally identified a lack of up-to-date procedures as an area of concern. In response, Mr. Gasparich indicated that the NMFA recognizes the need to develop procedures with its new loan servicing system. Another accounting issue identified was the classification of extraordinary items on the NMFA's financial reports. Mr. Gasparich explained that certain general fund reversions were miscategorized as grants, and the problem has been corrected by reclassifying the funds. Finally, an issue arose with respect to the manner in which the NMFA reported certain fringe benefits, including the use of an automobile, to the Internal Revenue Service. Mr. Gasparich explained that the NMFA has eliminated the automobile and the issue has been resolved.

State compliance was also identified by the matrix as an area of concern. Mr. Gasparich indicated that a particular issue under this area of concern stems from the NMFA's payment to an auditor without an approved contract. Mr. Gasparich indicated that the payment has been returned to the NMFA and the issue has been resolved. In addition, one of the NMFA's auditors identified the NMFA's need for timely cash deposits. Mr. Gasparich said that in response to this concern, the NMFA implemented a 24-hour deposit period and can now deposit checks electronically. In response to concerns regarding travel and per diem, the NMFA board has adopted a policy similar to that followed by other state agencies. Finally, the NMFA has updated its equipment in response to concerns that some of its equipment had become outdated.

The committee members discussed a number of other issues with Mr. Curtis and Mr. Gasparich, including:

- the terms of settlement with Clifton Gunderson LLP relative to the estimated \$1.6 million in costs associated with alleged errors made by that auditing firm;
- the parties involved in approving the settlement; and
- the possible role of an internal auditor in addressing the items identified by the NMFA on its matrix report.

NMFA Lending Processes

Rick Martinez, director of business development, NMFA, and Marquita D. Russel, chief of programs, NMFA, provided the committee with an overview of the three phases of its lending process.

Ms. Russel explained the first phase, involving the lending officer's analysis of an application for a loan from the NMFA. Applications are submitted by a number of sources, including banks, municipalities, counties, farmers and engineers. After receiving an application, the NMFA first determines whether the submitting entity is an entity qualified to receive financing and whether the project involved is qualified. Particularly with respect to projects funded through the PPRF, it might be necessary to determine whether the entity and project have

received the necessary legislative authorization. The NMFA also determines the median household income (MHI) of the community within which the project would reside. Ms. Russel elaborated that the MHI is a variable important to the determination of the applicable interest rate. The NMFA offers an interest rate below the market interest rate for communities with an MHI below 90 percent of the statewide MHI.

Ms. Russel explained that the NMFA conducts an analysis of the revenue that would be pledged to support the loan. The NMFA examines at least a three-year revenue history of the entity applying for the loan. For enterprise funds, the NMFA examines the nature of the entity's expenditures. Additionally, the NMFA examines any revenue anomalies that might implicate the projected revenue of the entity.

After analyzing the applying entity's revenue, the NMFA reviews the entity's existing debt, including debt service and loan covenants. Loan covenants would be examined to ensure that they allow for parity debt.

The NMFA next determines the term of the loan. The NMFA will not provide a loan for a term longer than the life of the asset to be financed. The final part of the NMFA's analysis of revenue involves a determination of debt service coverage. Specifically, the NMFA determines the appropriate amount of the loan, keeping in mind the applying entity's revenues, expenditures and cash flow coverage.

After completing a revenue analysis, the NMFA analyzes management strengths and weaknesses, industry trends and market conditions. It also determines the market value of collateral, as applicable. Ms. Russel explained that while most projects funded from the PPRF are secured by collateral, that collateral does not supplant the necessary revenue streams necessary to repay a loan. The last part of the lending officer's initial analysis is the analysis of the structure of the proposed loan, including a determination of the lien position and any ongoing lien covenants.

Review and approval of the loan comprise the second phase of the NMFA's lending process. A first review by the chief lending officer is conducted. Ms. Russel added that the NMFA employs a chief lending officer for public lending programs and another chief lending officer for private lending programs. Then, a second review and recommendation by the staff credit committee occur. A third review and recommendation are made by the appropriate board committee. Finally, the NMFA board reviews and approves the proposed loan.

The third phase of the NMFA lending process is composed of the closing and post-closing procedures for the loan. Once the loan has been approved by the NMFA board, the NMFA's counsel drafts loan documents and sends them to the NMFA staff and the applicant for review. Next, the lending officer and the applicable loan servicer review the documents. The NMFA then sets the final interest rate, and the closing occurs. The NMFA monitors the loan for the life of the contract.

Committee members asked Mr. Martinez and Ms. Russel about the NMFA's process for financing charter school projects. Ms. Russel indicated that the NMFA's evaluation process includes referral to the NMFA's finance and loan committee and an evaluation of the charter school's mission to ensure that the proposed project life will exceed the terms of the requested loan. Ms. Russel further pointed out that charter schools are statutorily designated as "qualified entities" for the purpose of PPRF financing. She added that charter schools often find such financing attractive because the NMFA offers low interest rates. Some committee members expressed concern about the possible risks of providing funding to charter schools with fluctuating revenue streams.

NMFA Budget

Mr. Gasparich presented a handout containing the NMFA's FY 2014 budget request and an analysis of its request. He indicated that the budget request is based on goals to increase efficiency, to reach a flat-based budget and to ensure adequate funding for growing demands for colonias projects and upon the new markets tax credit program. The budget request also reflects funding needs for the management of the Local Government Planning Fund and the Drinking Water State Revolving Loan Fund. Mr. Gasparich also mentioned that the NMFA is assuming the risk involved with respect to a variety of complex and diverse financing programs. He added that the NMFA is increasingly relying upon intricate information technology systems and is increasing its emphasis on project oversight.

Mr. Gasparich proposed a budget of approximately \$8.57 million for FY 2013, including projected expenditures for personnel services, employee benefits, in-state travel, maintenance and repairs, office supplies, professional services, operating costs and out-of-state travel. Mr. Gasparich additionally presented detailed information, contained in the NMFA's handout, regarding the various operational revenue sources and amounts projected for FY 2014. The operational revenue sources are estimated by the NMFA to equal its operational expenses.

Some committee members inquired about the NMFA's ability to recover costs from financing water projects and colonias projects. Mr. Gasparich indicated that costs for those projects are recovered from utilizing loan repayments. He indicated that, in some cases, the loan repayments have not yet materialized. He noted that some unrecovered expenses extend back to FY 2006.

In response to questions from the committee regarding the NMFA's proposed operating budget for personnel, Mr. Gasparich noted that the NMFA intends to fill an assistant general counsel position. He added that the NMFA intends to provide funding for a compliance specialist to work with the NMFA's new loan servicing software.

Upon a motion made and seconded, the committee approved the NMFA's budget proposal.

New Markets Tax Credits

Ms. Russel provided the committee with a presentation on new markets tax credits. She first explained the purpose of the new markets tax credit program. The program provides tax incentives to investors for equity investments in certified community development entities. A federal investment tax credit, equal to \$.39 per \$1.00, may be allocated for a qualified project. Investors may purchase the future flow of tax credits to be earned over a period of seven years, including five percent in each of the first three years and six percent in the remaining years. Ms. Russel indicated that credits cannot be used for projects that are considered "sin" businesses or projects that have more than 80 percent of their annual incomes composed of residential rental income. She said that, in general, the tax credits are allocated for areas considered to be "highly distressed". Under the federal definition, this includes rural communities with at least 20 percent of the population living in poverty or urban communities with at least 30 percent of the population living in poverty.

Ms. Russel indicated that the NMFA's goal is to form partnerships with banks to fill financing gaps for qualified projects. New markets tax credits supplement the NMFA's loan participation programs with capital provided by the private sector. Ms. Russel indicated that the new markets tax credit program contributes to economic development in New Mexico through increased construction, increased tax collections and new capital investments in rural and underserved communities. Ms. Russel indicated that the program also brings new goods and services to those communities and funds vital community service projects.

Ms. Russel described the role of Finance New Mexico, LLC, within the new markets tax credit program. Finance New Mexico is a certified community development entity in which the NMFA has a 99 percent interest. New Mexico Community Capital, a nonprofit organization, has the remaining one percent interest. The NMFA is the manager of Finance New Mexico. The NMFA appoints an advisory board to ensure that the new markets tax credits are used consistently with federal requirements. Concluding her presentation, Ms. Russel described a few projects that received new markets tax credit allocations in New Mexico and the detailed process by which new markets tax credits are leveraged.

Committee members inquired about consequences with respect to the new markets tax credits when the involved borrowers do not meet federal requirements. Ms. Russel indicated that new markets tax credits are subject to a clawback provision under such circumstances. She said that investors closely monitor the risk of borrowers' ongoing compliance and noncompliance.

Water Trust Fund, Project Application Process and Approved Applicants

Mr. Gasparich and Jana Amacher, director of water resources, NMFA, provided the committee with a list of Water Project Fund projects recommended for legislative authorization for the 2014 legislative session. The NMFA requested funding for 120 projects at an amount of \$139,531,417. The recommended projects included: 76 water storage, conveyance and delivery projects; 11 watershed restoration and management projects; 12 flood prevention projects; two federal Endangered Species Act of 1973 collaborative projects; and 19 water conservation

treatment, reuse and recycling projects. Ms. Amacher noted that the Water Trust Board deemed three projects ineligible for funding from the Water Project Fund upon legal review.

Ms. Amacher presented a list of six Acequia Project Fund projects recommended by the NMFA for legislative authorization. The NMFA requested approval of \$100,000 in funding for those projects.

The committee members commented on the volume of projects recommended for legislative approval. Ms. Amacher stated that only \$32.4 million from the Water Project Fund would be available for water projects. She added that the Water Trust Board will rank the projects, and those projects will be further evaluated against the necessary criteria. She stated that the Water Trust Board will decide which projects to recommend for approval to the NMFA board in May 2014, and the NMFA board would review that recommendation the following month.

Committee members asked what would become of the projects that are deemed to be ineligible. Ms. Amacher said that the NMFA would work with its legal staff to find alternative sources of funding for those projects. The committee members additionally expressed the possible necessity to further review the eligibility of some of the Water Trust Board projects proposed for legislative approval. Ms. Amacher commented that the legislature has the ability to add or subtract projects from the proposed project list. The chair requested that the committee carefully review the projects on the list provided by the NMFA and be prepared to discuss the possibility of endorsement at the committee's next meeting.

PPRF Appropriation to Local Government Planning Fund

Mr. Gasparich proposed two bill drafts to the committee for its endorsement. The first proposed bill draft included a \$2 million appropriation from the PPRF to the Local Government Planning Fund for expenditure in FY 2014. The appropriation would be used to make grants to qualified entities and to evaluate and estimate the costs of implementing the most feasible alternatives for infrastructure or water or wastewater public projects or to develop water conservation plans, long-term master plans, economic development plans or energy audits. The appropriation would also be used to pay the administrative costs of the NMFA's local government planning program. The committee unanimously endorsed the bill.

Mr. Gasparich proposed a bill draft to authorize the NMFA to transfer up to \$2 million per fiscal year from the PPRF to the Local Government Planning Fund. The committee did not endorse the bill draft.

Water Project Fund Distribution and Forest Industry Economic Development Programs

Brent Racher, Ph.D., president, New Mexico Forest Industry Association, discussed issues related to wildfire and water source protection in New Mexico. Dr. Racher stated that forest overgrowth contributes to wildfires. He indicated that recent wildfires have destroyed larger areas in the state than in the past. He added that rainfall after a high-severity burn may

cause debris flows and flooding, which damages water sources and water supplies. Dr. Racher expressed concern about the effects of high-severity wildfires on New Mexico's water sources.

To address the issues discussed, Dr. Racher recommended that a fund for wildfire and water source protection be established to accelerate treatments. He proposed that the fund include contributions from water users and businesses and leveraged federal, local and private funds. Dr. Racher additionally proposed that criteria for use of the fund include consideration of the probability of high-severity wildfires, post-fire debris flows and risks to communities.

Dr. Racher provided the committee with several statistics. He stated that for every \$1.00 spent in managing forests, the state saves: \$.18 to fight and suppress wildfires; \$.61 to rehabilitate stabilized burned areas; \$.86 in direct costs such as property losses, evacuation aid and damage to utilities and facilities; and \$2.23 in the full cost of wildfires. Dr. Racher added that for every 1,000 acres of forest restored, the state can generate four to 10 jobs in mechanical or hand thinning, eight jobs in product manufacturing and sales and seven jobs in planning and transportation. He noted that most jobs would be created in rural areas.

Terry Sullivan, state director, The Nature Conservancy, discussed The Nature Conservancy's support of forest management and expressed that there is a relationship between forest management and watershed management. He said that restoration efforts due to fire damage can cost hundreds of millions of dollars and that such damage impairs the ability of communities to withdraw water from the Rio Grande.

With respect to Dr. Racher's and Mr. Sullivan's proposals, committee members discussed possible issues that might be posed under the federal Endangered Species Act of 1973 and by various groups. Members asked about any plans to conduct National Environmental Policy Act assessments with regard to Dr. Racher's and Mr. Sullivan's proposals. Committee members suggested that solutions outside of forest thinning might require exploration, including funding for fire stations and firefighting equipment. Concerns were also raised about the flexibility of forest closure periods and issues of control over forests.

New Mexico Community Assistance Fund

Senator Candelaria presented to the committee for endorsement a bill to create the Disadvantaged Community Assistance Project Fund to assist disadvantaged communities with infrastructure projects. The bill would permit the legislature to appropriate money from the PPRF to the Disadvantaged Community Assistance Project Fund. Senator Candelaria said that the bill would provide an infrastructure funding source to disadvantaged communities unable to obtain funding from other sources. Senator Candelaria indicated that as part of his proposal, the NMFA board would be permitted to make recommendations to the legislature with respect to the allocation of any appropriations from the PPRF to the new fund.

Committee members asked about alternative funding sources for projects in disadvantaged communities. Senator Candelaria indicated that sources such as severance tax

bonds and funds from local government planning could be more volatile than funding from the PPRF. Mr. Martinez indicated that the proposed bill could permit the NMFA to review the proposed allocation of appropriations and formulate a more accurate estimate of funding amounts. Other committee members discussed issues with regard to the scope of the communities that could be eligible for financing pursuant to the provisions of the bill.

The committee members did not vote on the endorsement of the bill. The chair requested additional information on possible alternative sources of funding for the projects described by Senator Candelaria.

Recess

With no further business for the day, the meeting recessed at 4:20 p.m.

Friday, November 1

Representative Lundstrom reconvened the meeting at 9:00 a.m.

State Telecommunications Needs

Moira Gerety, deputy chief information officer, Information Technologies Department, University of New Mexico (UNM), provided the committee with a presentation regarding the contributions of higher education institutions to the state's information technology infrastructure.

Ms. Gerety stated that researchers at New Mexico's universities are at the forefront of global networking, and they collaborate with global peers to conduct leading-edge work. She added that the universities also often work with local communities to improve the state's broadband ecosystem.

Ms. Gerety described the higher education networks in New Mexico. In particular, she described the network landscape of UNM and indicated that its network landscape includes building networks and campus networks. Ms. Gerety also described metropolitan networks in the Albuquerque area.

Next, Ms. Gerety described statewide networks. She indicated that those networks are challenging to fund, but federal stimulus funds could assist in such funding. She said that the Rio Grande Valley Fiber Optic Network, the eastern loop and national networks currently traverse the state. Ms. Gerety also indicated that UNM participates in a regional network to the benefit of other research institutions and that there is currently a New Mexico research network agreement in effect. Ms. Gerety described some other national and global networks to which higher education institutions are linked.

Ms. Gerety described a number of assets associated with higher education broadband projects, including equipment, software and human capital. She also described the associated costs.

Ms. Gerety provided a number of examples of the manner in which non-higher education institutions have used the information technology infrastructure built by New Mexico's higher education institutions. According to Ms. Gerety, entities that have used the information technology infrastructure include: the Pueblo of Zia; the Pueblo of Zuni; the City of Albuquerque; the OSE; the City of Gallup; and McKinley County.

Ms. Gerety indicated that state funding for information technology infrastructure has significantly diminished, and there is a concern about how the key linkage points in the state can be funded. She added that federal funding for information technology projects is scarce.

Some committee members asked questions about the life of the assets associated with information technology infrastructure projects and their relationship to the life of the bonds issued to finance those projects. Ms. Gerety responded that the state's universities are struggling with whether some information technology assets constitute capital assets that are properly funded through the issuance of bonds. She indicated that the universities are seeking financing alternatives for information technology infrastructure projects.

Other committee members asked Ms. Gerety how the state could adequately address regional and statewide investments in the state's information technology infrastructure. Ms. Gerety indicated that universities could serve as anchors that could bring resources, such as broadband access, into communities. She indicated that it is a challenge to provide the necessary financing to the necessary parties in a manner that most efficiently improves the information technology infrastructure.

A committee member proposed that a memorial could establish a task force to study the state's information technology infrastructure. Other committee members inquired about the manner in which the information technology landscape in the state could be used for renewable energy and agricultural projects. The committee unanimously approved a motion to make a request to provide general obligation bond funding for information technology infrastructure.

U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program

Andrew Jacobsen, deputy secretary, Department of Finance and Administration (DFA), provided the committee with an overview of the HUD Section 108 loan guarantee program. Deputy Secretary Jacobsen explained that HUD Section 108 loan guarantee program is part of the community development block grant (CDBG) process. Entities compete for CDBG funds to develop existing communities. The goal of the program is principally to benefit low-to-moderate income areas and to eliminate and prevent the development of slum and blight conditions. Deputy Secretary Jacobsen indicated that HUD Section 108 funds can be used to leverage CDBG funds into loans for economic development projects. HUD Section 108 financing could be guaranteed by funds from future CDBG funds.

Applicants eligible for Section 108 financing include entitlement communities, which are

usually composed of larger cities, and non-entitlement communities, which are smaller cities. The non-entitlement communities apply for Section 108 financing through the state. The state may apply for Section 108 funding in an amount equal to its CDBG allocation, multiplied by five. That product now approximates \$42 million for New Mexico.

Deputy Secretary Jacobsen explained how funds flow to and from various entities with respect to the HUD Section 108 loan guarantee program. First, the HUD provides funds to the State of New Mexico. The state then provides the funds to a local non-entitlement entity, which then can provide financing for a project.

Deputy Secretary Jacobsen indicated that the HUD has provided a number of guidelines with respect to the loan guarantee program. C.F.R. 570.711 lists the application requirements for state borrowers. The HUD has also published underwriting guidelines and an economic toolkit with respect to the program. Finally, the HUD has published mandatory public benefit standards, including a requirement for one full-time employee for each \$50,000 in Section 108 loan assistance. The standards also indicate that a loan of \$5 million must generate at least 100 jobs.

According to Deputy Secretary Jacobsen, a number of concerns possibly implicate future HUD Section 108 allocations to the state. He identified the following concerns:

- risks to future CDBG funding;
- a lack of underwriting infrastructure;
- a complicated structure;
- competition from other states;
- a lack of clear program guidelines;
- uncertainty about the types of loans that are appropriate; and
- borrower concerns, including a lack of structure and predictability.

Ultimately, Deputy Secretary Jacobsen indicated, the goal is to clarify and develop rules so that the HUD Section 108 program can be implemented in a consistent, strategic and thoughtful manner, while avoiding the appearance of favoritism.

Committee members asked for clarification regarding the communities eligible to receive portions of the state's CDBG funding. Committee members also asked questions about salary requirements with respect to federal job creation requirements associated with Section 108 funding. Deputy Secretary Jacobsen indicated that the HUD sets such guidelines, and those guidelines do not contain salary requirements. Finally, committee members asked whether Section 108 financing would be used to develop infrastructure projects in particular areas to promote economic development. Deputy Secretary Jacobsen indicated that such a use is possible if all the federal and state requirements are met.

Energy Transmission Laws and Regulations

Toney Anaya, former governor of New Mexico, provided an overview of the New

Mexico Express (TNME), a project to build a transmission line using buried high-voltage direct current technology, extending from Gallup to Clovis and from Clovis to southeastern New Mexico. Governor Anaya said that TNME would facilitate the export of electricity generated in New Mexico.

Governor Anaya stated that with requested cooperation from the state, TNME developers seek to develop a state energy plan and identify the state's unmet needs for additional transmission capacity. He added that they also seek to encourage development of the state's clean energy resources consistent with the state's economic and social policies. Governor Anaya mentioned that legislative oversight on progress development and deployment of a state energy plan is encouraged.

According to Governor Anaya, obtaining rights of way for transmission lines has presented challenges for TNME. Previously, TNME developers proposed an expedited process for approval of public highway rights of way. Governor Anaya indicated that the Department of Transportation (DOT) already expedites the process for granting those rights of way and that the DOT timely acts upon the applications within six to nine months after receipt.

Committee members discussed with Governor Anaya the possibilities of providing wind power facilities with access to the proposed transmission line and burying fiber optic cables as part of the effort to bury the proposed transmission line. Committee members additionally inquired about potential costs associated with moving existing utility lines, which Tom Church, secretary-designate, DOT, indicated would be borne by the developer. In response to committee member questions, Governor Anaya discussed the ways in which Tres Amigas, LLC, TNME and the New Mexico Renewable Energy Transmission Authority are cooperating with respect to the proposed transmission line.

Governor Anaya presented a proposal to permit the DOT to receive a fee for the use of its state highway rights of way with respect to the transmission project. He estimated that the fee could provide \$12 million to \$17 million in additional revenue to the DOT. Governor Anaya suggested some statutory changes to achieve the goals in the proposal. Upon a motion that was made and seconded, the committee voted to request a bill draft in accordance with suggested statutory changes.

Finally, the committee unanimously approved a motion to reflect a correction in the minutes from the last NMFA Oversight Committee meeting.

Adjournment

The committee adjourned at 11:26 a.m.